Lekwa Local Municipality
(Registration number MP305)
Annual Financial Statements
for the year ended June 30, 2019

Lekwa Local Municipality

(Registration number MP305)
Annual Financial Statements for the year ended June 30, 2019

General Information

Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community
Mayoral Committee	
Executive Mayor	Cllr. LBR Dhlamini
Speaker	Cllr. HM Khota
Chief Whip	Cllr. ML Molaba
Member of Mayoral Committee: Technical Services and Planning and Development	Cllr. BP Mollo
Member of Mayoral Committee: Corporate Sevices and Community Services and Safety	Cllr. VT Malinga (Resigned)
Councillors	Cllr ENK Shabangu Cllr F Sarang Cllr JL Jansen Van Rensburg Cllr NL Nkosi Cllr MS Khumalo Cllr SM Zacarias Cllr JR De Ville Cllr MS Mngomezulu Cllr MB Mosikedi Cllr XM Tshabalala Cllr PJ Dlamini Cllr B Ndlebe Cllr JQ Khumalo Cllr RS Solontsi Cllr TJ Kambule Cllr MM Sibanyoni Cllr LP Selepe Cllr FE Mhlapo Cllr VM Mahlangu Cllr NS Selepe Cllr JW Ngubeni Cllr SS TP Motloung Cllr PC Mahlaba Cllr SJ Nkosi Cllr SM Ngwenya Cllr SA Silonsini
Grading of local authority	Grade 4
Accounting Officer	Mrs GP Mhlongo-Ntshangase
Chief Finance Officer (CFO)	Mr K Duba (Acting Chief Financial Officer)
Registered office	C/O Mbonani Mayisela and Dr Beyers Naude Street Standerton 2430
Business address	PO Box 66 Standerton

General Information

Bankers	First National Bank Nedbank
Auditors	Auditor General South Africa

Lekwa Local Municipality
(Registration number MP305)
Annual Financial Statements for the year ended June 30, 2019

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers (Previously IMFO)
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 7, which have been prepared on the going concern basis, were approved by the Accounting officer on 30 August 2019 and were signed.

GP Mhlongo-Ntshangase
Municipal Manager

Accounting Officer's Report

The accounting officer submits her report for the year ended June 30, 2019.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 248,191,282 (2018: deficit R 361,231,276).

2. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus (deficit) of R (359,290,000) and that the municipality's total liabilities exceed its assets by R (359,290,000).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Municipality has been unable to meet all its current obligations by not paying service providers within 30 days on receipts of invoice in accordance with Section 65 of the Municipal Finance Management Act No 56 of 2003. Interest incurred from paying of suppliers late have been disclosed as fruitless and wasteful expenditure in this financial statement. The Municipality has incurred a net loss of R 334,495,186 on the Statement of Financial Performance during the reporting period ended 30 June 2019. The net loss takes cognisance of other non-cash items which include depreciation and debt impairment. Liquidity management objectives have not been met as the cash coverage ratio was less than a month which is below the norm of three months and current ratio was fragile as the current liabilities exceeded the current assets by R 692 536 884 with an outcome assessment of less than one. A material amount of receivables have been impaired due to noncollectability. Payments arrangement have been made with some of the creditors given the financial constraints of the Municipality.

The Municipality with the assistance of Cooperative Governance and Traditional Affairs have prepared an Integrated Municipal Support Plan (IMSP) which was tabled in Council. The Integrated Municipal Support Plan (IMSP), constitutes commitments made by various stakeholders and activities aimed at turning around the municipality.

The Municipality with the assistance of Cooperative Governance and Traditional Affairs and Provincial Treasury have drafted a financial recovery plan as part of the section 139 of the Municipal Finance Management Act of 2003.

The Municipality is currently implementing the financial recovery an all relevant oversight committees and stakeholder will be monitoring the implementation of the plan on regular basis.

The Municipality continues to aggressively implement the financial interventions and revenue collection strategies in order to improve its financial sustainability.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer does not have any interest in contracts, either direct or indirect.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

Accounting Officer's Report

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The acccounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit Committee

The audit committe members for the year ended 30 June 2019 were as follows:

Mr F.T Ngcobo	Chairperson
Mr W.N Mgaga	Member
Mr T Gafane	Member

Internal audit

The municipality has a fully functional internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

7. Bankers

First National Bank and Nedbank was used for daily operations as well as investing of grant funding.

8. Auditors

Auditor General South Africa will continue in office for the next financial period.

The annual financial statements set out on page 7, which have been prepared on the going concern basis, were approved by the Accounting officer on 30 August 2019 and were signed:

GP Mhlongo-Ntshangase
Municipal Manager

Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018
Assets			
Current Assets			
Vat receivable	6	33,289,556	53,992,411
Inventories	8	69,705,909	67,453,220
Receivables from exchange transactions	9&11	208,483,279	105,671,651
Receivables from non-exchange transactions	10&11	6,317,031	15,163,668
Cash and cash equivalents	12	9,905,514	27,138,372
		327,701,289	**269,419,322**
Non-Current Assets			
Investment property	3	1,522,935	1,597,225
Property, plant and equipment	4	1,135,667,742	1,121,932,822
Other financial assets	5	26,889,897	25,663,459
Receivables from exchange transactions	9	28,104,869	21,692,150
		1,192,185,443	**1,170,885,656**
Total Assets		**1,519,886,732**	**1,440,304,978**
Liabilities			
Current Liabilities			
Payables from exchange transactions	15	1,274,979,330	933,450,170
Consumer deposits	16	2,144,409	2,735,069
Employee benefit obligation	7	7,785,233	3,469,841
Unspent conditional grants and receipts	13	6,734,563	22,301,113
Provisions	14	6,843,050	-
		1,298,486,585	**961,956,193**
Non-Current Liabilities			
Employee benefit obligation	7	70,542,876	79,264,045
Provisions	14	510,147,262	510,183,458
		580,690,138	**589,447,503**
Total Liabilities		**1,879,176,723**	**1,551,403,696**
Net Assets		**(359,289,991)**	**(111,098,718)**
Accumulated surplus		(359,290,000)	(111,098,733)

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018
Revenue			
Revenue from exchange transactions			
Service charges	18	393,588,842	343,444,107
Operational revenue	19	2,061,545	1,400,742
Interest received - investment	20	53,326,567	41,926,264
Rental income		1,778,331	1,906,238
Total revenue from exchange transactions		**450,755,285**	**388,677,351**
Revenue from non-exchange transactions			
Fines, Penalties and Forfeits	23	3,446,560	2,788,890
Government grants & subsidies	22	169,722,528	131,652,887
Property rates	21	69,846,380	64,045,601
Total revenue from non-exchange transactions		**243,015,468**	**198,487,378**
Total revenue	17	**693,770,753**	**587,164,729**
Expenditure			
Employee related costs	24	184,850,815	198,804,643
Remuneration of councillors	25	11,362,166	11,768,408
Depreciation and amortisation	26	73,202,379	75,625,316
Impairments	27	2,883,111	1,904,873
Finance costs	28	110,500,608	82,350,016
Lease rentals on operating lease	29	6,510,749	18,322,661
Debt Impairment	30	59,820,281	90,957,067
Bulk purchases	31	384,229,439	352,301,511
Contracted services	32	52,409,341	64,952,651
Loss on disposal of assets		-	227,040
Inventories losses/write-downs		-	4,733,173
Operational costs	33	56,193,146	46,448,646
Total expenditure		**941,962,035**	**948,396,005**
Deficit for the year		**(248,191,282)**	**(361,231,276)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2017	**250,132,543**	**250,132,543**
Changes in net assets		
Surplus for the year	(361,231,276)	(361,231,276)
Total changes	(361,231,276)	(361,231,276)
Balance at July 1, 2018	**(111,098,718)**	**(111,098,718)**
Changes in net assets		
Surplus for the year	(248,191,282)	(248,191,282)
Total changes	(248,191,282)	(248,191,282)
Balance at June 30, 2019	**(359,290,000)**	**(359,290,000)**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018
Cash flows from operating activities			
Receipts			
Property rates		69,846,380	66,834,491
Sale of goods and services		296,374,655	277,930,322
Grants		154,155,978	156,742,888
Interest income		53,326,567	41,926,264
		573,703,580	543,433,965
Payments			
Employee costs		(196,212,981)	(211,861,608)
Suppliers		(182,179,702)	(187,187,515)
Finance costs		(124,454,317)	(82,350,016)
		(502,847,000)	(481,399,139)
Net cash flows from operating activities	36	**70,856,580**	**62,034,826**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(86,863,009)	(34,362,681)
Proceeds from sale of property, plant and equipment	4	-	(227,040)
Proceeds from sale of financial assets		(1,226,438)	(1,536,078)
Net cash flows from investing activities		**(88,089,447)**	**(36,125,799)**
Net increase/(decrease) in cash and cash equivalents		**(17,232,867)**	**25,909,027**
Cash and cash equivalents at the beginning of the year		27,138,372	1,229,343
Cash and cash equivalents at the end of the year	12	**9,905,505**	**27,138,370**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	517,979,000	(94,024,307)	**423,954,693**	393,588,842	**(30,365,851)**	The Municipality envisaged an increase in revenue as a result of installation of smart meters and correction of service accounts
Rental income	2,000,000	(162,004)	**1,837,996**	1,778,331	**(59,665)**	The budget was understated as the Municipality did not want to inflate the revenue projection as it will influence the expenditure projection adversly
Operational revenue	55,912,000	(29,143,008)	**26,768,992**	2,061,545	**(24,707,447)**	Provision was made for VAT recovery as part of the additional revenue to be recouped by the Municipality as well as disposal of land which didn't follow thorugh.
Interest received - investment	48,971,000	-	**48,971,000**	53,326,567	**4,355,567**	Variance less than 5%
Total revenue from exchange transactions	**624,862,000**	**(123,329,319)**	**501,532,681**	**450,755,285**	**(50,777,396)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	80,520,000	(3,624,012)	**76,895,988**	69,846,380	**(7,049,608)**	The Municipality envisaged implementing new SV however there was a significant decline in the valuation roll influenced by the decline in the markert performance
Transfer revenue						
Government grants & subsidies	111,527,700	74,004	**111,601,704**	169,722,528	**58,120,824**	The grants includes only revenue realised from operations and does not include grants relating to capital expenditure which the conditions have been met and revenue has been recognised
Fines, Penalties and Forfeits	350,000	2,471,012	**2,821,012**	3,446,560	**625,548**	The increase was as a result of the Municipality purchasing of a system (roadblock trailer) that assist in the collection of outstanding fines
Total revenue from non-exchange transactions	**192,397,700**	**(1,078,996)**	**191,318,704**	**243,015,468**	**51,696,764**	
Total revenue	**817,259,700**	**(124,408,315)**	**692,851,385**	**693,770,753**	**919,368**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Expenditure						
Employee costs	(182,749,100)	(26,288,396)	**(209,037,496)**	(184,850,815)	**24,186,681**	There was not enough funds to fill budgeted posts
Remuneration of councillors	(12,627,000)	-	**(12,627,000)**	(11,362,166)	**1,264,834**	There was no significance increase in the council remuneration in terms of the Public Office Bears Act
Depreciation and amortisation	(94,027,000)	-	**(94,027,000)**	(73,202,379)	**20,824,621**	The municipality has budgeted to procure additional assets but there was no funds available
Impairment loss/ Reversal of impairments	-	-	**-**	(2,883,111)	**(2,883,111)**	Municipality didn't budget for impairment
Finance costs	-	(106,587,672)	**(106,587,672)**	(110,500,608)	**(3,912,936)**	There was a significance in the amount owed to Eskom as a result of the Municipality having cash flow challenges
Lease rentals on operating lease	-	-	**-**	(6,510,749)	**(6,510,749)**	This was budgeted included in contracted services
Debt Impairment	(110,159,231)	(32,735,182)	**(142,894,413)**	(59,820,281)	**83,074,132**	The payment rate of consumers was not as anticipated during the bugeting process

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Bulk purchases	(367,958,425)	(64,179,270)	**(432,137,695)**	(384,229,439)	**47,908,256**	During the budgeting there was an antiipation that the disputed Water and sanitation billing will be resolved and redue the bulk purchases water billings.
Contracted Services	(22,117,000)	(31,522,884)	**(53,639,884)**	(52,409,341)	**1,230,543**	Variance less than 5%
Operational cost	(74,619,033)	(41,469,461)	**(116,088,494)**	(56,193,146)	**59,895,348**	The operational cost increased due to the increase in routine operations as a result of savings in the cost of contracted services Operating lease rentals included in the contracted services during budgeting
Total expenditure	**(864,256,789)**	**(302,782,865)**	**(1,167,039,654)**	**(941,962,035)**	**225,077,619**	
Deficit before taxation	**(46,997,089)**	**(427,191,180)**	**(474,188,269)**	**(248,191,282)**	**225,996,987**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(46,997,089)**	**(427,191,180)**	**(474,188,269)**	**(248,191,282)**	**225,996,987**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Statement of Financial Position						
Assets						
Current Assets						
Inventories	72,034,176	-	**72,034,176**	69,705,909	**(2,328,267)**	Variance less than 5%
Receivables from exchange transactions	756,269,096	-	**756,269,096**	208,483,279	**(547,785,817)**	The amount indicated on the budget does not take into consideration of impairments of debtors
Cash and cash equivalents	43,308,327	-	**43,308,327**	9,905,514	**(33,402,813)**	In current year there is an increased unspent grants. These grants are cash backed
	871,611,599	**-**	**871,611,599**	**288,094,702**	**(583,516,897)**	
Non-Current Assets						
Property, plant and equipment	1,123,638,028	-	**1,123,638,028**	1,135,667,742	**12,029,714**	Variance less than 5%
Other financial assets	24,122,985	-	**24,122,985**	26,889,897	**2,766,912**	The municipality didn't reclassify other receivables which has been due for more that 12 months to non-current assets.
	1,147,761,013	**-**	**1,147,761,013**	**1,162,557,639**	**14,796,626**	
Total Assets	**2,019,372,612**	**-**	**2,019,372,612**	**1,450,652,341**	**(568,720,271)**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	1,723,927,154	-	**1,723,927,154**	1,274,979,330	**(448,947,824)**	Due to inadequate cash flows, payables has been increasing. The largest amount owing is to Eskom

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Consumer deposits	2,755,825	-	**2,755,825**	2,144,409	**(611,416)**	There has been a spike in houses that has been disposed off hence the the reduction in deposit held
Employee benefit obligation	-	-	**-**	7,785,233	**7,785,233**	The Municipality didn't split the the current portion of employee benefit obligation and landfill site provision in budgeting
Unspent conditional grants and receipts	-	-	**-**	6,734,563	**6,734,563**	The Municipality anticipated to spend all conditional grants at the end of the financial period
Provisions	2,924,493	-	**2,924,493**	6,843,050	**3,918,557**	Municipality didn't split the the current portion of employee benefit obligation and landfill site provision in budgeting
	1,729,607,472	**-**	**1,729,607,472**	**1,298,486,585**	**(431,120,887)**	
Non-Current Liabilities						
Provisions	506,530,247	-	**506,530,247**	510,147,262	**3,617,015**	Provisions have increased due to increased interest charges, for landfill sites due to continued non rehabilitation of sites which have reached their useful life
Total Liabilities	**2,236,137,719**	**-**	**2,236,137,719**	**1,808,633,847**	**(427,503,872)**	
Net Assets	**(216,765,107)**	**-**	**(216,765,107)**	**(357,981,506)**	**(141,216,399)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	-	-	**-**	(359,289,998)	**(359,289,998)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property tax	48,312,000	9,360,000	**57,672,000**	69,846,380	**12,174,380**	There was an increase in revenue collection due to government departments paying for rates as a result of the implementation of credit control & debt collection
Sale of goods and services	418,971,460	(100,755,000)	**318,216,460**	296,374,655	**(21,841,805)**	There was a decline in revenue collection due to inadeqaute implemntation of credit control & debt collection
Grants	167,561,700	22,000,000	**189,561,700**	154,155,978	**(35,405,722)**	Grants reduced due to MIG allocation being adjusted in the revised DORA allocations.
Interest income	12,242,750	8,726,000	**20,968,750**	53,326,567	**32,357,817**	Interest earned on outstanding debtors increased as a result of growth in oustanding debtors
	647,087,910	**(60,669,000)**	**586,418,910**	**573,703,580**	**(12,715,330)**	
Payments						
Employee costs and suppliers	660,070,558	(257,509,170)	**402,561,388**	502,821,646	**100,260,258**	The expenditure was reduced due to cash flow constraints and interest for arrears on Eskom account due to cash flow constraints

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Net cash flows from operating activities	**1,307,158,468**	**(318,178,170)**	**988,980,298**	**1,076,525,226**	**87,544,928**	
Cash flows from investing activities						
Purchase of property, plant and equipment	53,491,222	54,041,078	**107,532,300**	86,863,009	**(20,669,291)**	There was under expenditure in Capital expenditure due to financial constraints as well as slow expenditure on conditional grant expenditure
Net increase/(decrease) in cash and cash equivalents	1,360,649,690	(264,137,092)	**1,096,512,598**	1,163,388,235	**66,875,637**	
Cash and cash equivalents at the beginning of the year	1,159,515	27,138,372	**28,297,887**	-	**(28,297,887)**	
Cash and cash equivalents at the end of the year	**1,361,809,205**	**(236,998,720)**	**1,124,810,485**	**1,163,388,235**	**38,577,750**	
Reconciliation						

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Accounting Policies

1.5 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.
Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.6 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Plant and machinery	Straight line	2 - 5 years
Furniture and fixtures	Straight line	7 years
Motor vehicles	Straight line	3 - 20 years
Office equipment	Straight line	3 - 5 years
IT equipment	Straight line	3 - 5 years
Infrastructure	Straight line	15 - 30 years
Community	Straight line	30 years
Workshop equipment	Straight line	5 years
Specialised vehicles	Straight line	10 years
Wastewater network	Straight line	15 - 20 years
Water network	Straight line	15 - 20 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

Accounting Policies

1.6 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintenance property, plant and equipment in the notes to the financial statements.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Accounting Policies

1.7 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Accounting Policies

1.9 Employee benefits (continued)

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.9 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.9 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Accounting Policies

1.10 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Accounting Policies

1.10 Provisions and contingencies (continued)

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.11 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

Accounting Policies

1.16 Irregular expenditure (continued)

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2018 to 6/30/2019.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.18 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Accounting Policies

1.18 Related parties (continued)

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.19 Value added tax

The Municipality is registered with the South African Revenue Services as a VAT vendor in accordance with section 15(2) of the Value Added Tax Act (No. 89 of 1991).
The Municipality accounts for Value Added Tax on the payment basis as per the VAT Act

Figures in Rand	2019	2018

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 1 (amended): Presentation of Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	April 1, 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	April 1, 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	April 1, 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	April 1, 2020	Unlikely there will be a material impact

3. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	4,242,477	(2,719,542)	1,522,935	3,714,477	(2,117,252)	1,597,225

Reconciliation of investment property - 2019

	Opening balance	**Depreciation**	**Total**
Investment property	1,597,225	(74,290)	1,522,935

Reconciliation of investment property - 2018

	Opening balance	**Transfers**	**Depreciation**	**Total**
Investment property	1,909,115	(227,040)	(84,850)	1,597,225

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	141,194,150	-	141,194,150	141,194,150	-	141,194,150
Buildings	9,451,151	(3,131,355)	6,319,796	9,451,151	(2,837,387)	6,613,764
Plant and machinery	516,943	(494,605)	22,338	516,074	(494,605)	21,469
Furniture and fixtures	10,313,237	(9,368,609)	944,628	10,156,368	(9,513,740)	642,628
Motor vehicles	54,235,282	(52,390,283)	1,844,999	54,235,282	(52,570,525)	1,664,757
IT equipment	5,068,376	(3,588,524)	1,479,852	5,061,994	(3,566,208)	1,495,786
Work in progress	181,131,237	-	181,131,237	127,323,954	-	127,323,954
Infrastructure	1,412,781,950	(961,996,062)	450,785,888	1,393,385,880	(906,655,888)	486,729,992
Community	33,529,755	(4,080,648)	29,449,107	33,529,755	(3,062,101)	30,467,654
Electricity network	321,301,012	(193,841,501)	127,459,511	317,253,046	(186,237,229)	131,015,817
Workshop equipment	2,533,373	(2,317,311)	216,062	3,009,543	(2,317,311)	692,232
Wastewater network	253,017,859	(120,508,255)	132,509,604	242,542,862	(114,672,952)	127,869,910
Water network	162,057,010	(99,810,213)	62,246,797	162,057,010	(95,917,381)	66,139,629
Other property, plant and equipment	449,798	(386,025)	63,773	449,798	(388,718)	61,080
Total	**2,587,581,133**	**(1,451,913,391)**	**1,135,667,742**	**2,500,166,867**	**(1,378,234,045)**	**1,121,932,822**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Depreciation	Total
Land	141,194,150	-	-	141,194,150
Buildings	6,613,764	-	(293,968)	6,319,796
Plant and machinery	21,469	947	(78)	22,338
Furniture and fixtures	642,628	367,448	(65,448)	944,628
Motor vehicles	1,664,757	336,835	(156,593)	1,844,999
IT equipment	1,495,786	-	(15,934)	1,479,852
Work in progress	127,323,954	53,807,283	-	181,131,237
Infrastructure	486,729,992	19,396,070	(55,340,174)	450,785,888
Community	30,467,654	-	(1,018,547)	29,449,107
Electricity network	131,015,817	3,973,676	(7,529,982)	127,459,511
Workshop equipment	692,232	-	(476,170)	216,062
Wastewater network	127,869,910	8,676,273	(4,036,579)	132,509,604
Water network	66,139,629	284,418	(4,177,250)	62,246,797
Other property, plant and equipment	61,080	20,059	(17,366)	63,773
	1,121,932,822	**86,863,009**	**(73,128,089)**	**1,135,667,742**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Depreciation	Total
Land	141,194,150	-	-	141,194,150
Buildings	3,335,935	3,571,796	(293,967)	6,613,764
Plant and machinery	33,370	-	(11,901)	21,469
Furniture and fixtures	637,572	210,579	(205,523)	642,628
Motor vehicles	2,896,685	-	(1,231,928)	1,664,757
IT equipment	1,687,816	294,080	(486,110)	1,495,786
Work in progress	97,513,898	29,810,056	-	127,323,954
Infrastructure	542,070,167	-	(55,340,175)	486,729,992
Community	31,418,799	-	(951,145)	30,467,654
Electricity network	138,625,346	-	(7,609,529)	131,015,817
Workshop equipment	328,767	476,170	(112,705)	692,232
Wastewater network	133,089,011	-	(5,219,101)	127,869,910
Water network	70,067,820	-	(3,928,191)	66,139,629
Other property, plant and equipment	95,970	-	(34,890)	61,080
	1,162,995,306	**34,362,681**	**(75,425,165)**	**1,121,932,822**

Work Progres Progress

Work in progress	181,131,237	127,323,954

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Other financial assets

Residual interest at cost		
Eskom SOC Ltd The amount held is a deposit paid to Eskom. The deposit bears interest at a linked rate.	26,889,897	25,663,459

Figures in Rand	2019	2018

5. Other financial assets (continued)

Non-current assets		
At amortised cost	26,889,897	25,663,459

6. Vat receivable

Vat	33,289,556	53,992,411

The Municipality accounts for Value Added Tax on the payment basis.

7. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-post employement medical benefit plan	(62,545,794)	(73,156,346)
Present value of the defined benefit obligation-long service award	(12,114,048)	(9,577,540)
	(74,659,842)	**(82,733,886)**
Non-current liabilities	(70,542,876)	(79,264,045)
Current liabilities	(7,785,233)	(3,469,841)
	(78,328,109)	**(82,733,886)**

Net expense recognised in the statement of financial performance

Current service cost	4,173,565	4,136,811
Interest cost	7,710,710	7,538,481
Actuarial (gains) losses	(16,290,052)	(6,306,230)
Actual benefits vested	4,650,663	2,664,416
	244,886	**8,033,478**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Post employment Benefit Plan	(18,738,683)	(5,908,666)
Actuarial (gains) losses – Long Service Awards	2,448,631	(397,564)
	(16,290,052)	**(6,306,230)**

Figures in Rand	2019	2018

7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.38 %	9.65 %
Proportion for eligible current non member employees joining the scheme by retirement	20.00 %	20.00 %
Health care cost inflation rate	6.85 %	7.44 %
Net discount rate - health care cost inflation	2.37 %	2.06 %
Maximum subsidy inflation rate	4.76 %	5.21 %
Net discount rate - maximum subsidy inflation	4.41 %	4.23 %
Continuation of membership at retirement	75.00 %	90.00 %
Proportion with a spouse dependant at retirement	60.00 %	90.00 %

WIthdrawal from service (PEMA and LSA):

Age	Females	Males
20	9 %	9 %
30	6 %	6 %
40	5 %	5 %
50	3 %	- %
	23 %	**20 %**

Sensitivity Analysis on the Accrued Liability (R Millions) : PEMA

Assumptions	Change	In-service members	Continuation members	Total	% change
Central assumptions		34.719	28.827	62.546	
Health care inflation	+1%	38.580	29.820	68.400	9%
Health care inflation	-1%	30.043	25.981	56.024	-10%
Discount rate	+1%	28.993	25.570	54.563	-13%
Discount rate	-1%	42.114	30.484	72.598	16%
Post retirement mortality	-1 year	35.612	28.835	64.447	3%
Average retirement age	-1 year	37.583	27.827	65.410	+5%
Continuation of membership at retirement	-10%	27.609	27.827	55.436	-11%
		-	-	-	-	-

The post-employment mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.
The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 9% higher than that shown.

Sensitivity Analysis on the Accrued Liability (R Millions) : LSA

Assumptions	Change	Liability	% change
Central assumptions		12.114	
General earnings inflation rate	+1%	12.831	6%
General earnings inflations rate	-1%	11.460	-5%
Discount rate	+1%	11.431	-6%
Discount rate	-1%	12.876	6%
Average retirement age	- 2years	10.765	-11%
Average retirement age	+ 2years	13.227	9%
Withdrawal rate	-50%	13.622	+12%

PEMA liability reconciliation:

Figures in Rand	2019	2018

7. Employee benefit obligations (continued)

	30/06/2019	30/06/2018
Opening accured liability	70,156,346	70,642,830
Current service cost	3,354,016	3,341,135
Interest cost	6,976,147	6,860,023
Contributions (benefits paid)	(2,202,032)	(1,778,976)
Total annual expense	8,128,131	8,422,182
Actuarial loss/(gain)	(18,738,683)	(5,908,666)
Closing accured liabilty	62,545,794	73,156,346
	130,219,719	**154,734,874**

LSA liability reconciliation:

	30/06/2019	30/06/2018
Opening accured liability	9,577,540	8,591,282
Current service cost	819,549	795,676
Interest service cost	734,563	678,458
Benefits (vested)	(1,466,235)	(885,440)
Total annual expense	87,877	588,694
Acctuarial loss/(gain)	2,448,631	397,564
Closing accured liability	12,114,048	9,577,540
	24,315,973	**19,743,774**

8. Inventories

Consumable stores	3,967,236	1,793,310
Water for distribution	152,938	5,010
Land for sale - RDP	65,585,735	65,654,900
	69,705,909	**67,453,220**

In the prior year inventories that related to a specific contract were written down to net realisable value, due to the contract expiring and the inventories being contract specific. In the current year the write down was reversed, as a new contract was obtained and the expected selling prices are in excess of original cost. Inventory is now stated at its original cost.

There is no inventories pledged as security

9. Receivables from exchange transactions

Sundry Receivables	41,830,448	35,411,834
Consumer debtors - Electricity	79,063,155	33,680,120
Consumer debtors - Water	57,953,601	21,967,247
Consumer debtors - Sewerage	19,023,429	6,692,632
Consumer debtors - Refuse	13,653,492	4,540,966
Consumer debtors - Other	25,064,023	25,071,002
	236,588,148	**127,363,801**
Non-current assets	28,104,869	21,692,150
Current assets	208,483,279	105,671,651
	236,588,148	**127,363,801**

Trade and other receivables pledged as security

There are no Consumer Debtors pledged as security for overdraft facilities.

Figures in Rand	2019	2018

9. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Fair value of trade and other receivables

Aging of Sundry Receivables through exchange transactions		
90+ days	41,830,448	37,398,513
Trade and other receivables	283,232,272	127,363,801

Trade and other receivables impaired

As of June 30, 2019, trade and other receivables of R (605,333,949) (2018: R (582,870,455) were impaired and provided for.

The amount of the provision was R (22,463,494) as of June 30, 2019 (2018: R (53,370,348)).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(582,870,455)	(529,500,107)
Provision for impairment	(22,463,494)	(53,370,348)
	(605,333,949)	**(582,870,455)**

10. Receivables from non-exchange transactions

Fines	3,159,184	1,003,022
Consumer debtors - Rates	3,157,847	14,160,646
	6,317,031	**15,163,668**

Receivables from non-exchange transactions pledged as security

There are no Consumer Debtors pledged as security for overdraft facilities.

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	17,122,387	15,163,668

Receivables from non-exchange transactions impaired

The ageing of these loans is as follows:

Traffic fines impairment	(2,883,111)	(1,904,873)
Consumer debtors - Rates	(17,404,570)	(35,235,289)

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(146,460,227)	(109,320,065)
Provision for impairment	(17,405,722)	(37,140,162)
	(163,865,949)	**(146,460,227)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 30).

Figures in Rand	2019	2018
11. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Rates	156,061,298	149,659,527
Consumer debtors - Electricity	146,613,878	101,868,064
Consumer debtors - Water	227,522,798	171,726,891
Consumer debtors - Sewerage	101,910,998	78,475,375
Consumer debtors - Refuse	73,821,476	55,579,571
Consumer debtors - Other	284,745,806	267,172,521
	990,676,254	**824,481,949**
Less: Allowance for impairment		
Consumer debtors - Rates	(152,903,451)	(135,498,881)
Consumer debtors - Electricity	(67,550,723)	(68,187,944)
Consumer debtors - Water	(169,569,197)	(149,759,644)
Consumer debtors - Sewerage	(82,887,569)	(71,782,743)
Consumer debtors - Refuse	(60,167,984)	(51,038,605)
Consumer debtors - Other	(259,681,783)	(242,101,519)
	(792,760,707)	**(718,369,336)**
Net balance		
Consumer debtors - Rates	3,157,847	14,160,646
Consumer debtors - Electricity	79,063,155	33,680,120
Consumer debtors - Water	57,953,601	21,967,247
Consumer debtors - Sewerage	19,023,429	6,692,632
Consumer debtors - Refuse	13,653,492	4,540,966
Consumer debtors - Other	25,064,023	25,071,002
	197,915,547	**106,112,613**
Included in above is receivables from exchange transactions		
Consumer debtors - Electricity	78,425,934	33,680,121
Consumer debtors - Water	77,763,934	21,967,247
Consumer debtors - Sewerage	30,128,255	6,692,632
Consumer debtors - Refuse	22,782,871	4,540,966
Consumer debtors - Other	32,301,610	23,086,225
	241,402,604	**89,967,191**
Not Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	11,806,187	14,160,647
Net balance	**253,208,791**	**104,127,838**
Rates		
Current (0 -30 days)	5,450,820	4,519,062
31 - 60 days	3,500,516	1,548,227
61 - 90 days	3,167,203	2,822,883
91 + days	158,792,692	140,770,507
Allowance for impairment	(152,904,603)	(135,500,033)
	18,006,628	**14,160,646**

Figures in Rand	2019	2018

11. Consumer debtors disclosure (continued)

Electricity		
Current (0 -30 days)	16,564,023	17,254,050
31 - 60 days	5,919,889	4,583,326
61 - 90 days	3,804,390	3,108,998
91 + days	71,609,339	76,921,690
Allowance for impairment	(67,550,723)	(68,187,944)
	30,346,918	**33,680,120**
Water		
Current (0 -30 days)	6,113,376	5,003,769
31 - 60 days	4,966,670	3,846,397
61 - 90 days	4,981,302	3,452,660
91 + days	179,032,813	159,424,065
Allowance for impairments	(169,569,197)	(149,759,644)
	25,524,964	**21,967,247**
Sewerage		
Current (0 -30 days)	2,593,672	2,181,635
31 - 60 days	1,897,726	1,549,641
61 - 90 days	1,743,644	1,422,327
91 + days	85,994,575	73,321,772
Allowance for impairment	(82,887,569)	(71,782,743)
	9,342,048	**6,692,632**
Refuse		
Current (0 -30 days)	1,787,541	1,425,819
31 - 60 days	1,290,374	1,086,423
61 - 90 days	1,240,995	1,012,735
91 + days	62,485,803	52,054,594
Allowance for impairment	(60,167,984)	(51,038,605)
	6,636,729	**4,540,966**
Consumer debtors - Other		
Current (0 -30 days)	4,668,096	5,142,769
31 - 60 days	4,497,392	4,931,517
61 - 90 days	4,518,201	4,504,288
91 + days	233,848,965	252,593,947
121 - 365 days	(225,158,476)	(242,101,519)
	22,374,178	**25,071,002**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(718,369,336)	(629,763,697)
Contributions to allowance	(9,869,213)	(88,605,639)
	(728,238,549)	**(718,369,336)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Figures in Rand	2019	2018

12. Cash and cash equivalents (continued)

Cash on hand	6,344	6,344
Bank balances	2,359,676	1,159,515
Short-term deposits	7,539,494	25,972,513
	9,905,514	**27,138,372**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
Nedbank - Current Account - 1185919473	2,385,020	-	116,994	2,359,676	63,501	2,525,586
Nedbank - Call Account - 37881152087	10,077	918	405,724	10,077	918	405,724
Nedbank - Call Account - 37881152001	10,077	1,080,077	194,053	10,077	4,616,090	194,053
Nedbank - Call Account - 37881152028	1,080,077	516,035	520,079	1,080,077	516,035	520,079
Nedbank - Call Account - 37881152095	440,077	184,515	-	440,077	184,515	-
Nedbank - Call Account - 37881153059	3,010,000	19,368,278	-	3,010,000	19,368,278	-
Nedbank - Call Account - 37881152109	10,077	963,155	-	10,077	963,155	-
First National Bank - Call Account - 37881152079	241,114	91,839	-	241,114	91,839	-
Nedbank Account - 37881152036	2,655,764	47,451	45,643	2,655,764	47,451	45,643
Nedbank Account - 37881151994	47,187	-	-	47,187	-	-
First National Bank - 6202704030	-	1,159,515	-	-	1,159,515	-
First National Bank - 62027040740	41,389	-	-	41,389	-	-
Total	**9,930,859**	**23,411,783**	**1,282,493**	**9,905,515**	**27,011,297**	**3,691,085**

13. Unspent conditional grants and receipts

The municipality complied with the conditions attached to the grants received to the extend of revenue recognised. Unspent portions of conditional grants are cash backed.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Water Services Infrastructure Grant	6,713,486	22,071,166
Energy Efficiency and Demand Side Management Grant	21,077	-
Intergrated National Electrification Programme	-	229,947
	6,734,563	**22,301,113**
Movement during the year		
Opening balance	22,301,113	-
Additions during the year	166,060,000	60,006,000
Income recognition during the year	(181,396,550)	(37,704,887)
Withheld due to Unspent	(230,000)	-
	6,734,563	**22,301,113**

Figures in Rand	2019	2018

13. Unspent conditional grants and receipts (continued)

See note for reconciliation of grants from National/Provincial Government.

14. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Payments during the year	Total
Councillors backpay provision	-	2,239,910	-	2,239,910
Environmental rehabilitation provision	55,381,458	4,774,849	-	59,984,598
Department of water and sanitation	454,765,804	-	-	454,765,804
Leave pay provision	36,196	-	(36,196)	-
	510,183,458	**7,014,759**	**(36,196)**	**516,990,312**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Payments during the year	Change in discount factor	Total
Councillors backpay provision	323,524	-	(323,524)	-	-
Environmental rehabilitation provision	50,606,609	-	-	4,774,849	55,381,458
Department of water and sanitation	379,254,299	77,527,178	(2,015,673)	-	454,765,804
Leave payout - deceased	36,196	-	-	-	36,196
	430,220,628	**77,527,178**	**(2,339,197)**	**4,774,849**	**510,183,458**

Non-current liabilities	510,147,262	510,183,458
Current liabilities	6,843,050	-
	516,990,312	**510,183,458**

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

There is no expected reimbursement (from the manufacturer) in respect of this provision.

The municipality moved from its previous leased premises. The lease in non-cancellable and the lease continue for the next - years. The municipality cannot find a lessee to occupy the premises.

15. Payables from exchange transactions

Payments received in advanced - contract in process	12,428,375	8,497,611
Retentions and guarantees	9,673,367	7,666,166
Salaries accruals	35,314,794	38,301,819
Accrued leave pay	16,666,226	16,630,030
13th Cheque Provisions	4,547,713	4,547,713
Other Accruals	1,195,954,893	848,921,359
Income received in advance	-	2,824,198
Advance payments consumers	393,962	6,061,274
	1,274,979,330	**933,450,170**

Fair value of trade and other payables

Trade payables	1,274,979,330	933,450,170

Figures in Rand	2019	2018
16. Consumer deposits		
Deposits held from consumer debtors	(887,151)	2,804,079
Electricity	3,037,814	(60,743)
Water	(6,254)	(8,267)
	2,144,409	**2,735,069**
17. Revenue		
Service charges	393,588,842	343,444,107
Rental income	1,778,331	1,906,238
Operational revenue	2,061,545	1,400,742
Interest received - investment	53,326,567	41,926,264
Property rates	69,846,380	64,045,601
Government grants & subsidies	169,722,528	131,652,887
Fines, Penalties and Forfeits	3,446,560	2,788,890
	693,770,753	**587,164,729**
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	393,588,842	343,444,107
Rental income	1,778,331	1,906,238
Operational revenue	2,061,545	1,400,742
Interest received - investment	53,326,567	41,926,264
	450,755,285	**388,677,351**
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	69,846,380	64,045,601
Transfer revenue		
Government grants & subsidies	169,722,528	131,652,887
Fines, Penalties and Forfeits	3,446,560	2,788,890
	243,015,468	**198,487,378**
18. Service charges		
Sale of electricity	261,809,161	245,666,198
Sale of water	77,421,394	58,903,670
Sewerage and sanitation charges	32,858,348	21,956,119
Refuse removal	21,499,939	16,918,120
	393,588,842	**343,444,107**
19. Operational revenue		
Tender deposits received	62,608	38,141
Cementary fees	106,315	191,171
Building plan charges	93,215	89,507
Clearance certificates	168,183	85,053
Rezoning fees	672,121	86,267
Miscellaneous income	771,085	557,217
Connection and reconnection fees	208,965	353,386
Skills development levy fund	(20,947)	-
	2,061,545	**1,400,742**

Figures in Rand	2019	2018

20. Investment revenue

Interest revenue		
Bank	2,896,546	3,215,532
Interest charged on trade and other receivables	50,430,021	38,710,732
	53,326,567	**41,926,264**

The amount included in Investment revenue arising from exchange transactions amounted to R 50,430,021.

The amount included in Investment revenue arising from non-exchange transactions amounted to R 2,895,383.

21. Property rates

Rates received		
Residential	69,846,380	64,045,601
Valuations		
Residential	3,978,711,747	4,185,173,667
Commercial	877,171,623	878,813,294
State	749,499,751	707,587,260
Municipal	518,996,472	510,956,472
Small holdings and farms	3,726,546,050	3,892,621,550
	9,850,925,643	**0,175,152,243**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2019.

Figures in Rand	2019	2018

22. Government grants and subsidies

Operating grants		
Equitable share	107,321,108	93,948,000
Energy Efficiency and Demand Side Management Grant	5,978,923	-
Expanded publics works grants	1,000,000	1,013,000
MIG operating grant	1,331,111	-
	115,631,142	**94,961,000**
Capital grants		
Municipal Infrastructure Grant	26,702,889	19,293,000
Financial management grant	1,770,000	1,700,000
Water services infrastructure grant	25,618,497	7,928,834
Intergated national electricfication programme grant	-	7,770,053
	54,091,386	**36,691,887**
	169,722,528	**131,652,887**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	115,631,142	37,704,887
Unconditional grants received	54,091,386	93,948,000
	169,722,528	**131,652,887**

Water Services Infrastructure Grant

Balance unspent at beginning of year	22,071,166	30,000,000
Current-year receipts	20,000,000	-
Conditions met - transferred to revenue	(35,357,627)	(7,928,834)
	6,713,539	**22,071,166**

Conditions still to be met - remain liabilities (see note 13).

The Water Services Infrastructure grant is to provide specific capital finance for basic municipal water infrastructure micro enterprises and social institutions servicing poor communities.

Financial Management Grant

Current-year receipts	1,770,000	1,700,000
Conditions met - transferred to revenue	(1,770,000)	(1,700,000)
	-	**-**

The purpose of the Financial Management Grant (FMG) is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

Municipal Infrastructure Grant

Current-year receipts	28,034,000	19,293,000
Conditions met - transferred to revenue	(28,034,000)	(19,293,000)
	-	**-**

Figures in Rand	2019	2018

22. Impairment of assets (continued)

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

Expanded Public Works Grant

Current-year receipts	1,000,000	1,013,000
Conditions met - transferred to revenue	(1,000,000)	(1,013,000)
	-	**-**

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the Expanded Public Works Grant (EPWP) target group and can be measured in person-days of work or full time equivalent jobs.

Energy Efficient and Demand Side Management Grant

Current-year receipts	6,000,000	-
Conditions met - transferred to revenue	(5,978,923)	-
	21,077	**-**

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Intergrated National Electrification Programme Grant

Balance unspent at beginning of year	229,947	-
Current-year receipts	-	8,000,000
Conditions met - transferred to revenue	(229,947)	(7,770,053)
	-	**229,947**

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Integrated National Electrification Programme (INEP) stood currently, the challenges it faced as well as the challenges specific to municipalities

23. Fines, Penalties and Forfeits

Traffic Fines	3,446,560	2,788,890

Figures in Rand	2019	2018
24. Employee related costs		
Basic	109,733,137	110,482,339
Bonus	8,907,461	8,639,862
Medical aid - company contributions	10,060,461	9,419,273
UIF	831,871	917,707
Other payroll levies	6,469,485	6,824,155
Leave pay provision charge	377,330	1,800,810
Current service cost	(4,405,777)	3,499,774
Defined contribution plans	21,802,114	24,058,755
Travel, motor car, accommodation, subsistence and other allowances	5,998,544	8,103,382
Overtime payments	19,365,766	16,459,557
Long-service awards	791,086	733,132
Acting allowances	902,117	1,695,531
Housing benefits and allowances	82,644	86,076
Contribution provident fund	64,172	43,200
	180,980,411	**192,763,553**
Remuneration of Municipal Manager		
Annual Remuneration	1,169,058	1,364,158
Allowances	144,000	89,000
Contributions to UIF, Medical and Pension Funds	14,747	27,398
	1,327,805	**1,480,556**
Remuneration of Chief Finance Officer		
Annual Remuneration	125,168	513,959
Allowances	-	56,376
Contributions to UIF, Medical and Pension Funds	-	6,442
	125,168	**576,777**
Rumuneration of Executive Manager Corparate Services		
Annual Remuneration	868,086	880,732
Contributions to UIF, Medical and Pension Funds	133,856	250,793
	1,001,942	**1,131,525**
Remuneration of Executive Manager Community Services & Safety		
Annual Remuneration	861,860	811,636
Allowances	60,000	60,000
Contributions to UIF, Medical and Pension Funds	166,953	140,276
	1,088,813	**1,011,912**
Remuneration of Executive Manager Technical Services		
Annual Remuneration	179,672	1,107,719
Allowances	6,065	-
Contributions to UIF, Medical and Pension Funds	523	61,110
	186,260	**1,168,829**
Remuneration of Executive Manager Development and Planning		
Annual Remuneration	210,504	595,001

Figures in Rand	2019	2018
24. Employee related costs (continued)		
Allowances	194,324	20,000
Contributions to UIF, Medical and Pension Funds	4,140	56,500
	408,968	**671,501**
25. Remuneration of councillors		
Executive Mayor	766,712	870,104
Mayoral Committee Members	1,739,013	2,001,168
Speaker	509,394	712,144
Councillors	7,671,889	7,397,588
Councillors' pension contribution	675,158	787,255
Other payroll levies	-	149
	11,362,166	**11,768,408**
26. Depreciation and amortisation		
Property, plant and equipment	73,202,379	75,540,466
Investment property	74,290	84,850
	73,276,669	**75,625,316**
27. Impairment of assets		
Impairments		
Other receivables from non-exchange revenue	2,883,111	1,904,873

The main classes of assets affected by reversals of impairment losses are other receivables from non exchanges (Traffic fines and debtors)

28. Finance costs		
Trade and other payables	105,897,468	77,575,167
Interest cost - LSA, PEMA and Landfill site provision	4,603,140	4,774,849
	110,500,608	**82,350,016**
29. Lease rentals on operating lease		
Motor vehicles		
Contractual amounts	6,510,749	18,322,661
30. Debt impairment		
Contributions to debt impairment provision	57,449,480	88,605,640
Bad debts written off	2,370,801	2,351,427
	59,820,281	**90,957,067**
31. Bulk purchases		
Electricity - Eskom	310,371,620	284,271,053
Water	73,857,819	68,030,458
	384,229,439	**352,301,511**

Figures in Rand	2019	2018
32. Contracted services		
Outsourced Services		
Fire Services	47,730	28,256
Meter Management	-	3,202,215
Security Services	19,223,210	15,116,198
Consultants and Professional Services		
Business and Advisory	7,464,668	23,140,534
Legal Cost	10,830,909	9,384,198
Contractors		
Maintenance of Buildings and Facilities	16,676	886,208
Maintenance of Equipment	14,826,148	13,195,042
	52,409,341	**64,952,651**
33. Operational cost		
Advertising	2,498,464	2,499,538
Auditors remuneration	5,648,687	3,923,727
Bank charges	918,343	981,853
Bursaries	79,850	13,988
Commission paid	2,579,567	7,992,305
Conferences and seminars	61,114	17,279
Consumables	7,028,141	7,606,871
Discount allowed	-	279,384
Entertainment	90,268	106,050
Fines and penalties	11,114,584	-
Fuel and oil	944,227	2,168,766
Hire	-	796,321
IT expenses	4,646,232	3,654,518
Insurance	3,935,171	1,597,087
Intergrated Development Planning and Local Economic Development	315,100	906,585
Medical expenses	-	50,884
Motor vehicle expenses	238,655	179,480
Postage and courier	217,214	119,185
Protective clothing	577,329	587,075
Skills development levy	1,620,462	1,668,396
Staff welfare	309	-
Subscriptions and membership fees	2,001,181	1,986,740
Telephone and fax	5,437,162	4,439,203
Title deed search fees	-	3,808
Training	6,678	4,439
Travel - local	3,886,364	3,879,814
Workmen's Compensation	2,348,044	985,350
	56,193,146	**46,448,646**
34. Auditors' remuneration		
Fees	5,648,687	3,923,727
35. Operating deficit		

Operating deficit for the year is stated after accounting for the following:

Figures in Rand	2019	2018
35. Operating deficit (continued)		
Operating lease charges		
Motor vehicles		
• Contractual amounts	6,510,749	18,322,661
Loss on sale of property, plant and equipment	-	(227,040)
Impairment of other receivables from non-exchange transactions	2,883,111	1,904,873
Depreciation on property, plant and equipment	73,202,379	75,540,466
Depreciation on investment property	-	84,850
Employee costs	196,212,981	210,573,051
36. Cash generated from operations		
Deficit	(248,191,282)	(361,231,276)
Adjustments for:		
Depreciation and amortisation	73,202,379	75,625,316
Gain on sale of assets and liabilities	-	227,040
Impairment deficit	2,883,111	1,904,873
Debt impairment	59,820,281	90,957,067
Movements in retirement benefit assets and liabilities	(4,405,777)	3,499,774
Movements in provisions	6,806,854	79,962,830
Changes in working capital:		
Inventories	(2,252,689)	5,066,294
Receivables from exchange transactions	(109,224,347)	16,277,790
Consumer debtors	(59,820,281)	(90,957,067)
Other receivables from non-exchange transactions	5,963,526	12,789,065
Payables from exchange transactions	341,529,160	239,311,953
VAT	20,702,855	(33,630,936)
Unspent conditional grants and receipts	(15,566,550)	22,301,113
Consumer deposits	(590,660)	(69,010)
	70,856,580	**62,034,826**
37. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	17,288,776	41,370,430
Total capital commitments		
Already contracted for but not provided for	17,288,776	41,370,430
Authorised operational expenditure		
Already contracted for but not provided for		
• Property, Plant and Equipment	(244,275)	-
Total operational commitments		
Already contracted for but not provided for	(244,275)	-

This committed capital expenditure relates to property and will be financed by revenue from conditional grants as in Division of Revenue Act.

Figures in Rand	2019	2018

38. Related parties

Remuneration of management

Mayoral committee members

38. Related parties (continued)

2019

Name	Basic salary	Car Allowance	Cellphone Allowance	Contribution to Medical and Pension Funds	Other benefits received	Total
Executive Mayor - Cllr. LBR Dhlamini	542,111	214,868	44,400	121,488	7,049	929,916
Speaker - Cllr. HM Khota	449,028	171,894	44,400	80,047	5,956	751,325
Chief Whip - Cllr. ML Molaba	547,913	-	44,400	94,211	5,051	691,575
Technical Services and Development and Planning - Cllr. BP Mollo	403,065	161,151	44,400	95,722	5,349	709,687
Corporate Services and Community services and safety - Cllr. VT Malinga (Resigned)	388,374	150,407	41,440	65,824	4,891	650,936
	2,330,491	**698,320**	**219,040**	**457,292**	**28,296**	**3,733,439**

Notes to the Annual Financial Statements

Figures in Rand

38. Related parties (continued)

2018

	Basic salary	Car Allowance	Cellphone Allowance	Contribution to medical and pension funds	Other benefits received	Total
Name						
Executive Mayor - Cllr. LBR Dhlamini	494,448	206,604	52,012	122,780	6,578	882,422
Speaker - Cllr. HM Khota	400,867	165,282	52,012	93,983	5,377	717,521
Chief Whip - Cllr. ML Molaba	526,682	-	46,332	92,491	4,889	670,394
Corporate Services and Community services and safety - Cllr. VT Malinga	393,193	154,953	46,332	69,729	5,007	669,214
Technical Services and Development and Planning - Cllr. BP Mollo	369,971	155,259	46,332	93,731	5,015	670,308
	2,185,161	**682,098**	**243,020**	**472,714**	**26,866**	**3,609,859**

Councillors/Mayoral committee members

38. Related parties (continued)

2019

Name	Basic salary	Car Allowance	Cellphone Allowance	Contribution to Medical and Pension Funds	Other benefits received	Total
Cllr ENK Shabangu	227,435	87,260	44,400	33,354	3,103	395,551
Cllr F Sarang	173,394	68,215	44,400	29,814	2,448	318,271
Cllr JL Jansen Van Rensburg	173,394	67,998	44,400	29,814	2,446	318,052
Cllr NL Nkosi	165,524	67,998	44,400	54,877	2,607	335,406
Cllr MS Khumalo	221,278	87,264	44,400	50,916	3,210	407,068
Cllr SM Zacarias	231,144	87,264	44,400	30,144	3,171	396,123
Cllr JR De Ville	173,394	67,998	44,400	29,814	2,446	318,052
Cllr MS Mngomezulu	173,394	67,998	44,400	29,814	2,446	318,052
Cllr MB Mosikedi	204,252	87,264	44,400	74,100	3,341	413,357
Cllr XM Tshabalala	173,394	67,998	44,400	29,814	2,446	318,052
Cllr PJ Dlamini	173,394	67,998	44,400	29,814	2,446	318,052
Cllr B Ndlebe	173,394	67,998	44,400	29,814	2,439	318,045
Cllr JQ Khumalo	222,522	87,264	44,400	38,262	3,013	395,461
Cllr RS Solontsi	163,291	67,998	44,400	58,071	2,616	336,376
Cllr Tj Kambule	173,394	67,998	44,400	29,814	2,446	318,052
Cllr MM Sibanyoni	173,394	67,998	44,400	29,814	2,446	318,052
Cllr LP Selepe	177,218	70,700	44,400	25,989	2,538	320,845
Cllr FE Mhlapo	230,128	87,264	44,400	41,442	3,204	406,438
Cllr VM Mahlangu	167,485	67,998	44,400	48,635	2,567	331,085
Cllr NS Selepe	173,394	67,998	44,400	29,814	2,446	318,052
Cllr JW Ngubeni	173,394	67,998	44,400	29,814	-	315,606
Cllr SS TP Motloung	11,764	4,533	2,960	2,448	171	21,876
Cllr PC Mahlaba	173,394	67,998	44,400	29,814	2,446	318,052
Cllr SJ Nkosi	209,092	16,999	44,400	44,643	2,485	317,619
Cllr SM Ngwenya	171,354	67,998	44,400	35,777	2,552	322,081
Cllr SA Silonsini	135,092	58,422	38,194	54,548	2,309	288,565
	4,618,307	**1,762,419**	**1,106,754**	**950,974**	**63,788**	**8,502,241**

38. Related parties (continued)

2018

Name	Basic salary	Car Allowance	Cellphone Allowance	Contribution to Medical and Pension funds	Other benefits received	Total
Cllr. AS Ngwenya	784	261	213	-	12	1,270
Cllr. B Ndlebe	170,110	67,500	46,124	30,375	2,429	316,538
Cllr. SB Sibeko	784	261	213	-	12	1,270
Cllr. ENK Shabangu	218,997	86,952	46,332	39,128	3,006	394,415
Cllr. FE Mhlapo	218,309	86,625	46,124	38,981	2,995	393,034
Cllr. JB Mothopeng	1,007	336	213	-	15	1,571
Cllr. JJ VAN Der Wath	130,600	51,954	35,602	23,134	1,878	243,168
Cllr.JL Jansen Van Rensburg	170,646	67,755	46,332	30,489	2,444	317,666
Cllr. JR De Ville	170,646	67,555	46,332	30,489	2,444	317,466
Cllr. JW Ngubeni	170,110	67,499	46,124	30,375	-	314,108
Cllr. LP Selepe	170,110	67,499	46,124	30,375	2,435	316,543
Cllr. MB Mosikedi	176,456	86,625	46,124	80,835	2,995	393,035
Cllr. MG Makhanye	784	261	213	-	12	1,270
Cllr. MM Sibanyoni	170,110	67,499	46,124	30,375	2,435	316,543
Cllr. MR Tshabalala	784	261	213	-	12	1,270
Cllr. MS Mngomezulu	170,110	67,500	46,124	30,375	2,435	316,544
Cllr.N Tshabalala	784	261	213	-	12	1,270
Cllr. NS Selepe	170,110	67,500	46,124	30,375	2,435	316,544
Cllr. PC Sikhakhane	784	261	213	-	12	1,270
Cllr. PT Schnetler	784	261	213	-	12	1,270
Cllr. S JQ Khumalo	218,312	86,622	46,124	38,981	2,995	393,034
Cllr. S MD Rakitla	784	261	213	-	12	1,270
Cllr. S MS Khumalo	199,391	86,952	46,332	58,734	3,006	394,415
Cllr. S MY Khumalo	784	261	213	-	12	1,270
Cllr. SS Gumede	784	261	213	-	12	1,270
Cllr. SS Mosia	1,007	336	213	-	15	1,571
Cllr. TJ Kambule	170,111	67,499	46,124	30,375	2,435	316,544
Cllr. VM Mahlangu	152,188	67,501	46,124	48,295	2,435	316,543

38. Related parties (continued)

Cllr. VM Sigasa	12,564	3,209	3,737	-	189	19,699
Cllr. BG Sekhonde	-	-	213	-	2	215
Cllr. F Sarang	170,646	67,755	46,332	-	-	284,733
Cllr. JP Masuku	784	261	213	-	12	1,270
Cllr. MM Mnisi	-	-	213	-	2	215
Cllr. NL Nkosi	146,782	67,755	46,332	54,354	2,444	317,667
Cllr. NZE Sitshoni	1,007	336	213	-	15	1,571
Cllr. PC Mahlaba	170,110	67,499	46,124	30,375	2,435	316,543
Cllr. PJ Dhlamini	170,110	67,499	46,124	30,375	2,435	316,543
Cllr. RV Solontsi	165,927	67,499	46,124	34,558	2,435	316,543
Cllr. SJ Nkosi	199,039	-	40,000	44,871	2,226	286,136
Cllr. SM Ngwenya	72,754	30,230	20,529	16,324	1,253	141,090
Cllr. SM Zacarias	218,997	86,952	46,332	39,128	3,006	394,415
Cllr. TA Khanyile	75,056	29,615	20,432	12,633	1,083	138,819
Cllr. XM Tshabalala	170,110	67,499	46,124	30,375	2,435	316,543
	4,430,056	**1,720,428**	**1,139,892**	**894,684**	**58,924**	**8,243,984**

39. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial performance

39. Prior-year adjustments (continued)

2018

	Note	As previously reported	Re-classification	Restated
Revenue from exchange transactions	19	-	1,400,742	1,400,742
Other Income	19	1,400,742	(1,400,742)	-
Employee related costs	24	(204,170,845)	5,451,848	(198,718,997)
Contracted services	32	(37,263,374)	(27,689,277)	(64,952,651)
General expenditure		(68,686,075)	68,686,075	-
Operational costs	33	-	(46,448,646)	(46,448,646)
		(308,719,552)	**-**	**(308,719,552)**

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.
The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.
Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At June 30, 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Trade and other payables	1,262,702,378	-	-	-

At June 30, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Trade and other payables	933,450,180	-	-	-

40. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Receivables from non-exchange transactions	6,317,031	15,163,668
Receivables from exchange transactions	208,483,279	105,671,651
Cash and cash equivalents	9,905,514	27,138,077
Non-current assets : Receivables form exchange transactions	6,317,031	21,692,150

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

41. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus (deficit) of R (359,290,000) and that the municipality's total liabilities exceed its assets by R (359,290,000).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

42. Unauthorised expenditure

Opening balance as previously reported	818,230,700	728,532,697
Unauthorised expenditure for the year	-	89,698,003
Opening balance as restated	**818,230,700**	**818,230,700**
Closing balance	**818,230,700**	**818,230,700**

43. Fruitless and wasteful expenditure

Opening balance as restated	**-**	**-**
Opening balance	210,536,843	132,901,507
Interest on Arrear Eskom accounts	108,610,533	73,975,747
Interest on Arrear, AGSA, SARS, Pension and Munsoft accounts	11,114,584	3,659,589
Closing balance	**330,261,960**	**210,536,843**

44. Irregular expenditure

Opening balance as restated	**-**	**-**
Opening balance	319,260,111	228,172,697
Other	7,141,402	4,932,885
Appointment of Financial Consultants	3,713,100	5,380,000
Supply chain management process not followed	3,805,924	1,143,525
Tender process committee members not appointed	-	29,871,066
Irregular expenditure identified in the current year relating to prior year	-	1,639,715
Appointed service providers	3,159,704	48,120,223
Closing balance	**337,080,241**	**319,260,111**

Figures in Rand		2019	2018

44. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Supply chain management process not followed	No disciplinary steps or investigations was done regarding supply chain management processes not followed	3,805,924	1,143,525

Analysis of expenditure awaiting condonation per age classification

Current year	17,820,130	91,087,414
Prior years	319,260,111	228,172,697
	337,080,241	**319,260,111**

45. Additional disclosure in terms of Municipal Finance Management Act

Material losses

Electricity	112,239,127	86,843,749
Water	62,642,352	62,564,444
	174,881,479	**149,408,193**

Electricity losses for the current year amounted to 38% i.e R 112,239,127 (2018: 32% i.e. R 86,843,749). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 10% .Non-technical losses, being theft, faults, billing errors etc., account for 22%. Attempts are currently being made to reduce these non-technical losses, data cleansing process will be initiated to address losses and the installation of smart meters.
Non revenue water i.e. non billed water amounted to 73% i.e. R62,642,352 (2018: 93% i.e. R62,564444). 10% of these losses can be accounted for it in terms of the National Guidelines for non revenue water.83% of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc.. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.

Figures in Rand	2019	2018

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Opening balance	3,755,449	1,616,140
Current year subscription / fee	6,372,936	4,436,201
Amount paid - current year	(6,118,019)	(2,296,892)
	4,010,366	**3,755,449**

PAYE and UIF

Opening balance	27,989,585	16,144,987
Current year subscription / fee	32,758,321	34,247,945
Amount paid - current year	(13,827,942)	(22,403,347)
	46,919,964	**27,989,585**

Pension and Medical Aid Deductions

Opening balance	8,572,851	118,130
Current year subscription / fee	55,810,332	52,025,659
Amount paid - current year	(51,064,830)	(43,570,938)
	13,318,353	**8,572,851**

VAT

VAT receivable	33,289,556	53,992,408

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

Figures in Rand	2019	2018

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2019:

June 30, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. H.M. Khota (Acc. Holder: T.B. Nhleko)	-	78	78
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	37,946	1,815	39,761
Cllr B.P Mollo (Acc. Holder: B.P Mollo)	-	5,337	5,337
Cllr. V.T Malinga (Acc Holder:Malinga DJ)	5,412	4,063	9,475
Cllr. P.J. Dlamini(Acc Holder:Dlamini E.V)	21,089	1,585	22,674
Cllr.T.J. Kambule (Acc Holder: T.J & M.Z.Kambule)	-	1,490	1,490
Cllr.S.M.Ngwenya (Acc Holder:Ngwenya DA)	-	1,811	1,811
Cllr.J.Q. Khumalo (Acc Holder: Khumalo & Radebe-Khumalo LM & QJ	-	163	163
Cllr.M.S. Khumalo (Acc Holder: Dlamini NM)	17,016	2,862	19,878
Cllr.P.C. Mahlaba (Acc Holder: Mahlaba CS)	75,228	3,312	78,540
Cllr.V.M. Mahlangu (Acc Holder:Mahlangu JB)	-	2,412	2,412
Cllr.F.E. Nhlapo (Acc Holder: Nhlapo FE)	1,040	1,600	2,640
Cllr. M.B. Mosikedi(Acc Holder:Mosikedi MB)	-	14	14
Cllr.J.W. Ngubeni(Acc Holder:Zwana SJ)	-	31	31
Cllr.S.J. Nkosi(Acc Holder:Nkosi SN)	25,723	2,674	28,397
Cllr.F. Sarang (Sarang RA)	-	1,307	1,307
Cllr.N.S. Selepe (Acc Holder:Selepe NA)	138,038	6,455	144,493
Cllr.E.N.K. Shabangu (Acc Holder:Mzizi CK Pensioner)	30,789	2,812	33,601
Cllr.M.M. Sibanyoni (Mazibuko MA)	223	4	227
Cllr.R.V. Solontsi	11,506	1,921	13,427
Cllr.S.M. Zacarias(Acc Holder:Hlatshwayo SM)	-	805	805
	364,010	**42,551**	**406,561**

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	32,609	1,646	34,255
Cllr. V.T Malinga (Acc Holder:Malinga DJ)	1,940	3,745	5,685
Cllr. P.J. Dlamini(Acc Holder:Dlamini E.V)	16,634	1,402	18,036
Cllr.T.J. Kambule (Acc Holder: T.J & M.Z.Kambule)	-	1,293	1,293
Cllr.S.M.Ngwenya (Acc Holder:Ngwenya DA)	-	1,042	1,042
Cllr.J.Q. Khumalo (Acc Holder: Khumalo & Radebe-Khumalo LM & QJ)	-	902	902
Cllr.M.S. Khumalo (Acc Holder: Dlamini NM)	15,084	1,484	16,568
Cllr.P.C. Mahlaba (Acc Holder: Mahlaba CS)	65,613	3,052	68,665
Cllr.V.M. Mahlangu (Acc Holder:Mahlangu JB)	-	1,915	1,915
Cllr.F.E. Nhlapo (Acc Holder: Nhlapo FE)	-	1,289	1,289
Cllr.M.S. Mngomezulu (Acc Holder: Mngomezulu MS)	-	1,391	1,391
Cllr. M.B. Mosikedi(Acc Holder:Mosikedi MB)	-	386	386
Cllr.S.J. Nkosi(Acc Holder:Nkosi SN)	18,270	2,302	20,572
Cllr.L.P. Selepe (Acc Holder:Selepe FE)	-	3,083	3,083
Cllr.N.S. Selepe (Acc Holder:Selepe NA)	119,748	5,785	125,533
Cllr.E.N.K. Shabangu (Acc Holder:Mzizi CK Pensioner)	23,197	2,451	25,648
Cllr.M.M. Sibanyoni (Dhlamini SS & Motaung NA)	210	4	214
Cllr.R.V. Solontsi	6,179	1,632	7,811
Cllr.X.M. Tshabalala	-	1,534	1,534
Cllr.S.M. Zacarias(Acc Holder:Hlatshwayo SM)	-	481	481
	299,484	**36,819**	**336,303**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

46. Contigences

Contigent Liabilities

Lekwa Local Municipality // SALGBC, J Mashika N.O & M.X Nkonyane Case: JR 1069/14	1,694,149	1,694,149
Lethusang Michael Mothobi// Moshoantle John Moboea	84,128	84,128
Hayes Matkovich Development (Pty) Ltd // Lekwa Local Municipality. Case no. 34401/12	65,756,794	65,756,794
Silinda Mokoena // Lekwa Local Municipality	17,414,183	17,414,183
Lekwa Municipality // SAWMU OBO Nkonde DE	204,000	204,000
Phumi Trading JV Masallo Zwane Construction//Lekwa	243,000	243,000
HC Schoeman HC // Lekwa	1,000,000	1,000,000
Disebo Lena Nkosi // Lekwa Municipality	194,254	194,254
Lekwa Municipality// Sky Village Properties CC	-	200,000,000
Sibonga Intuthuko Construction CC // Lekwa Municipality	148,952	148,952
Pheela Abraham Motaung & Others/ Lekwa Local Municipality	750,000	750,000
Telkom/ Lekwa Local Municipality	-	38,063
Telkom/ Lekwa Local Municipality	-	121,402
Thulane Karabo Shongwe/ Lekwa Local Municipality	1,750,000	1,750,000
Lekwa Local Municipality// El Gondor	17,558,033	17,558,033
Afri-Infra Group	747,246	-
Lourens Cornelius Nel// Lekwa Local Municipality(1017/2017)	-	19,200
Huebert Hendricks//Lekwa Local Municipality	33,767	-
Henry Jacobus Kruger //Lekwa Local Municipality	860,000	860,000
Eskom Holdings LTD/Lekwa Local Municipality(126/2019)	215,859,677	-
Ithemba Communications //Lekwa Local Municipality	3,743,383	-
Work Man Construction and Projects cc.// Lekwa L.M	98,929	-
FTMG Adivosy Services//Lekwa Local Municipality	640,493	-
Eigenbau (Pty) Ltd. Case No. 52156/2016	-	1,700,000
Bula Mosebetsi CC//Lekwa Local Municipality	-	2,435,346
	328,780,988	**311,971,504**

Contigent Assets

Silinda Mokoena // Lekwa Local Municipality	17,414,183	17,414,183

Refer on the audit working paper file for detailed explanations on contigences

Figures in Rand	2019	2018

47. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Order Number	Date	Supplier	Amount	Description	Reason
N/A - Direct Payment No order issued	4/23/2019	BARLOWS EQUIPMENT CO (ISANDO)	R 3 805 924	Procurement of Wheel-Loader	Urgent Procument as there were serious issues with the landillsite, which included the landfill site being closed, litigations agains the municipality as well as violation of the human rights